

India's GDP Growth Update

Economic Update | 1st December 2022

Economy grew at a slower pace as the base normalized

Event	Actual	Consensus	Previous
GDP Growth	6.3%	6.2%	13.5%

Highlights:

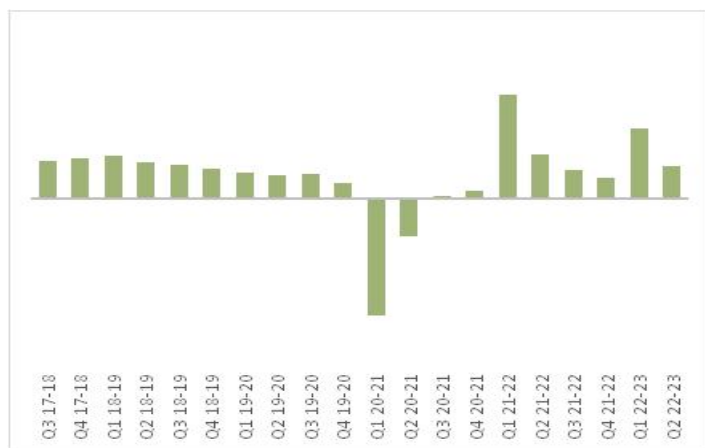
- The Indian economy expanded 6.3% YoY in Q2 FY23, slightly higher than forecasts of 6.2%, but well below a 13.5% growth in Q1, as distortions caused by COVID lockdowns faded, high prices and rising interest rates weighed on demand and slowing global demand started to impact exports.
- Private consumption and real investments held up GDP growth in Q2 FY23. Private consumption grew 9.7% in Q2 of FY23, contributing 5.5pp to overall GDP growth. On the contrary, government consumption contracted by 4.4%, contributing negatively (-0.4pp) to GDP growth. Additionally, real investments (GFCF + stocks) grew 9.2% in Q2 FY23, leading to a 3.2pp contribution to real GDP growth.
- While exports grew 11.5% in Q2 FY23 (14.7% YoY in Q1 FY23), imports grew 25.4% (37.2% YoY in Q1 FY23). This led to the external sector contributing -4.3pp to overall real GDP growth in Q2 FY23.
- GVA grew 5.6% YoY in Q2, compared with 12.7% for Q1, led by an unexpected contraction in manufacturing that seems to reflect the impact of high input prices on margins in certain sectors. However, GVA from agriculture sector has been somewhat of a surprise despite the inconsistency in rainfall. GVA growth in agriculture has been estimated at above 4% for the third consecutive quarter.
- The industrial sector on the contrary was a drag to real GVA growth. It contracted 0.8% in Q2 FY23 against 8.6% growth in Q1 FY23. The drag was propelled by mining (-2.8%) and manufacturing (-4.3%). Growth in the other two components electricity and construction continued in Q2 FY23.
- Services stood out as the clear driver of growth in Q2 FY23, accounting for 5.3% of the 5.6% GVA growth in this period, with even the pandemic-scarred trade, hotels, transport, and communication sub-segment surpassing its Q2 FY20 performance.
- Trade, hotel, transport and communication sector grew 14.7% in Q2 compared with 25.7% in Q1. The financial services sector grew 7.2%, compared with 9.2% in the prior quarter. Public administration, defence and other services grew 6.5%, compared with 26.3% in Q1 FY23.
- While a normalizing base expectedly flattened the YoY GDP growth in Q2 FY23, growth relative to the pre-Covid period improved appreciably. We see signs of strength in services, but expect manufacturing and exports to slow in coming months. Going forward, we expect real GDP growth of 4.5%-4.7% YoY in the second half of FY23, leading to a FY23 growth of around 7% YoY.
- This GDP print is unlikely to influence RBI's monetary policy decision on 7th December 2022. We are expecting a 35bp rate hike in December 2022.

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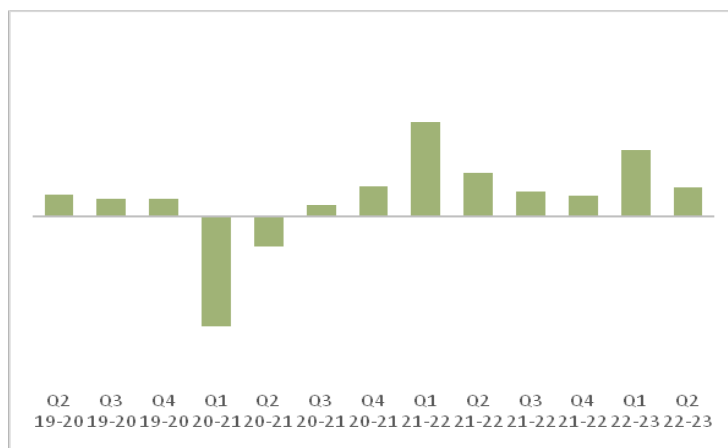
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Fig 1: GDP YoY% Trend


Soure: Mospi, SMIFS Research

Fig 2: GVA YoY% Trend


Soure: Mospi, SMIFS Research

Fig 3: GVA Contribution


Soure: Mospi, SMIFS Research

Fig 3: Interest Rate Trend


Soure: RBI SMIFS Research

Tab 1: GDP & GVA Growth Table

YoY %	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Real GD	8.4	5.4	4.1	13.5	6.3
Consumption	10.2	6.8	2.3	21.3	7.7
Private Consumption	10.5	7.4	1.8	25.9	9.7
Government Consumption	8.9	3.0	4.8	1.3	-4.4
Gross Capital Formation	26.8	8.4	5.2	19.3	5.9
GFCF	14.6	2.1	5.1	20.1	10.4
Exports	20.7	23.1	16.9	14.7	11.5
Imports	41.0	33.6	18	37.2	25.4
Real GVA	8.3	4.7	3.9	12.7	5.6
Agriculture	3.2	2.5	4.1	4.5	4.6
Industry	7	0.3	1.3	8.6	-0.8
Mining and Quarrying	14.5	9.2	6.7	6.5	-2.8
Manufacturing	5.6	0.3	-0.2	4.8	-4.3
Electricity	8.5	3.7	4.5	14.7	5.6
Construction	8.1	-2.8	2	16.8	6.6
Services	10.2	8.1	5.5	17.6	9.3
Trade, Hotels, T&C	9.6	6.3	5.3	25.7	14.7
Financing Service	6.1	4.2	4.3	9.2	7.2
Community, defense services	19.4	16.7	7.7	26.3	6.5

Soure: Mospi, SMIFS Research

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